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Letter dated 26 March 2001 from the Chairman of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait

I have the honour to transmit herewith, pursuant to paragraph 6 of Security Council resolution 1302 (2000), a report of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait on the implementation of the oil-for-food programme.

The report was approved by the Committee on 22 March 2001.

(*Signed*) Ole Peter **Kolby**
Chairman
Security Council Committee established by resolution 661 (1990)
concerning the situation between Iraq and Kuwait

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Report of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995)

I. Introduction

1. The present report is submitted to the Security Council pursuant to paragraph 6 of resolution 1302 (2000), in which the Committee was requested, in close coordination with the Secretary-General, to report to the Council prior to the end of the 180-day period after the entry into force of paragraph 1 of the above resolution on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995). By paragraph 1 of resolution 1302 (2000), the Council decided that the provisions of resolution 986 (1995), except those contained in paragraphs 4, 11 and 12 and subject to paragraph 15 of resolution 1284 (1999), would remain in force for a new period of 180 days beginning at 0001 hours, Eastern Daylight Time, on 9 June 2000.

2. The present report, the fifteenth of its kind, covers the major activities of the Committee with regard to the implementation of the above arrangements during phase VIII of the oil-for-food programme after paragraph 1 of resolution 1302 (2000) came into force on 9 June 2000.

II. Sale of petroleum and petroleum products

3. From the beginning of phase VIII until 30 November 2000, the export of petroleum from Iraq proceeded smoothly, with excellent cooperation among the oil overseers, the independent inspection agents (Saybolt Nederland BV), the Iraqi State Oil Marketing Organization and the national oil purchasers. From 30 November 2000 until the end of phase VIII, the Iraqi Government suspended exports of oil under the oil-for-food programme since an oil-pricing mechanism could not be agreed.

4. The overseers continued to advise the Committee on the oil-pricing mechanisms, oil contract approval and modifications, management of the revenue objective and other pertinent questions related to export and monitoring, under Security Council resolutions 986 (1995), 1175 (1998), 1242 (1999), 1281 (1999) and 1302 (2000). In this connection, it is noted that the overseers advised the Committee on 22 November 2000 that the pricing mechanism recently submitted by Iraq for liftings in December 2000 was too low to represent fair market value and the Committee concurred with their assessment. On advice from the Committee, the overseers informed buyers on 30 November 2000 that loadings could continue without a pricing mechanism but that no payments could be made for oil lifted until a new pricing mechanism was established.

5. Since the beginning of phase VIII, there has been an increase in the total level of oil exported from Iraq, with a larger share of crude oil exported from Mina-al-Bakr.

6. As at 4 December 2000, the Committee, acting under the recommendation of the overseers, had reviewed and approved a total of 115 oil contracts for the sale of oil in phase VIII, involving purchasers from 36 countries. The total quantity of oil approved for export under those contracts is approximately 435.3 million barrels for phase VIII. All contracts submitted used the pricing mechanisms approved by the Committee, on the recommendation of the overseers.

7. As at 4 December 2000, 306 liftings, totalling 375.7 million barrels worth a value of US$ 9,712 million, had been completed. Letters of credit opened for each of the liftings were reviewed and confirmed by the overseers in accordance with the terms and conditions of the approved contracts. About 40 per cent of the liftings were made at Ceyhan, in Turkey. At current prices, the total revenue for phase VIII is estimated to be approximately $9.7 billion, including the pipeline fees valued at $200 million, subject to appropriate authorization of revenues above the amount authorized by the Security Council.

8. The overseers have worked with the independent inspection agents (Saybolt Nederland BV) to ensure the effective monitoring of the relevant oil installations and the liftings. They have received the full cooperation of the Iraqi authorities.

9. Pursuant to paragraph 2 of the procedures of the Committee (S/1996/636), 623 national oil purchasers

have been nominated from 75 countries who are authorized to communicate directly with the overseers.

10. Pursuant to paragraph 14 of the procedures of the Committee, the overseers have continued to report to it once a week on the contracts considered by them regarding the sale of petroleum originating in Iraq, including the cumulative quantity and approximate value of petroleum authorized for export. To date, 208 reports have been submitted to the Committee.

11. The Secretary-General informed the President of the Security Council in a letter dated 10 August 2000 (S/2000/790) that, pursuant to paragraph 7 of Security Council resolution 1302 (2000), he had appointed two additional oil overseers to approve petroleum and petroleum product export contracts in accordance with paragraph 1 of Security Council resolution 986 (1995), thus bringing the number of the team to a total of three overseers.

III. Humanitarian supplies to Iraq

12. As in previous phases, during phase VIII, the Committee continued to attach high priority to the work of processing contracts for the supply of humanitarian goods to Iraq.

13. As at 30 November 2000, the Secretariat had received 2,493 applications under phase VII for exports of humanitarian supplies to Iraq. Of that total, 63 were judged to be incomplete or non-compliant; 17 are still being processed; 15 were subsequently cancelled; 24 were declared null and void; 736 were notified by the Secretariat; and 1,638 have been circulated to Committee members for action. Of those sent to the Committee, 1,206 have been approved, totalling approximately $2.3 billion; 15 are still pending under the "no-objection" procedure; and 417, with a total value of $1.0 billion, have been placed on hold. During phase VIII, the Secretariat received 861 applications for the export of humanitarian supplies to Iraq. From this total, 1 was declared null and void, 45 were deemed incomplete or non-compliant, 495 were notified by the Secretariat, 230 were circulated to Committee members for action and 90 are still being processed. Of those sent to the Committee for consideration, 168 have been approved, totalling approximately $557.4 million; 15 are still pending under the "no-objection" procedure; and 47, with a total value of $233.3 million, have been placed on hold. During the reporting period, 397 contracts of humanitarian supplies were released from hold, with a value of $1,008,267,958.

14. Pursuant to paragraph 17 of Security Council resolution 1284 (1999) of 17 December 1999, the Committee approved amended categorized lists of humanitarian items, including foodstuffs, pharmaceutical and medical supplies, as well as basic or standard medical and agricultural equipment and basic or standard educational items, based on proposals from the Secretary-General. The lists of foodstuffs and educational items were approved on 22 February 2000. The lists of health and agricultural items were approved on 29 March 2000. Pursuant to paragraph 8 of Security Council resolution 1302 (2000) of 8 June 2000, the Committee approved amended lists of basic water and sanitation supplies, based on proposals from the Secretary-General, on 7 August 2000. In accordance with the aforementioned resolutions, supplies of those items on the approved lists will not be submitted for the approval of the Committee, except for items subject to the provisions of resolution 1051 (1996), and will be notified to the Secretary-General and financed in accordance with the provisions of paragraphs 8 (a) and 8 (b) of resolution 986 (1995). The total number of humanitarian contracts so notified up to 30 November 2000 was 1,269, with a value of $2.8 billion. During phase VIII, 495 contracts were notified, with a total value of $1.6 billion.

15. The work of goods-arrival confirmation by the United Nations independent inspection agents (Cotecna) has continued according to the established procedures, at the four entry points to Iraq, at Al-Walid, Trebil, Umm Qasr and Zakho. As in previous phases, the Iraqi authorities have accorded the independent agents full cooperation in their work. During phase VIII, 1,983 consignments of humanitarian supplies from previous phases for the 53 per cent account, with a value of $1,634,634,141, have been confirmed as having arrived in Iraq in total or in partial shipments.

16. In accordance with the recommendations contained in the letters of the Secretary-General to the President of the Security Council of 22 October 1999 (S/1999/1086) and 3 October 2000 (S/2000/950), members of the Committee reviewed, on a regular basis, humanitarian contracts placed on hold during the reporting period and will continue to do so. During the reporting period, members of the Committee met five

times at the expert level to discuss holds in the various sectors of the distribution plan. Representatives from relevant United Nations agencies operating in Iraq and the Office of the Iraq Programme briefed members on those occasions.

IV. Matters relating to oil spare parts and equipment to Iraq

17. By paragraph 18 of resolution 1284 (1999), the Security Council requested the group of experts appointed by the Committee to approve contracts for the parts and equipment referred to in paragraph 1 of resolution 1175 (1998) according to lists of parts and equipment approved by the Committee for each individual project. That arrangement was reaffirmed by the Council in paragraph 9 of resolution 1302 (2000), adopted on 8 June 2000, wherein the Council further decided that up to $600 million from the escrow account might be used for that purpose. On 1 December 2000, the Committee approved an amended project-based list of oil spare parts and equipment for the Iraqi oil industry, based on proposals from the Secretary-General.

18. The Committee has been making continuous efforts to expedite the approval process for contracts for sending oil spare parts and equipment to Iraq in accordance with existing procedures. A team of experts has been set up by the Secretariat, as envisaged in paragraph 18 of resolution 1284 (1999), to review and approve contracts for oil spare parts according to lists of parts and equipment approved by the Committee for each individual project.

19. During the reporting period, the Secretariat received four new applications valued at $13,300,756 to ship oil spare parts and equipment to Iraq and circulated one application to the members of the Committee for consideration. That application, valued at $12,729,407, has been placed on hold. As at 30 November 2000, the application remains on hold.

20. From the beginning of the process up to 30 November 2000, the total allocation for oil spare parts and equipment amounted to $2,382 million. The number of applications received by the Committee to ship oil spare parts and equipment to Iraq under previous resolutions reached a total of 3,144, with a value of $1,832,694,880. Of these, 2,871 have been circulated to the members of the Committee for consideration; 93 are being reviewed by Committee experts awaiting amendments to the Distribution Plan or have been returned to the applicant missions for clarification and a total of 93 have been declared null and void, or cancelled, one was blocked and 11 are still being processed; a total of 75 were approved by the Office of the Iraq Programme. Of the 2,871 applications circulated, 2,312 have been approved, with a total value of $1,239,777,301; 554, valued at $331,531,045 have been placed on hold, and 5 applications are pending under the "no-objection" procedure. During the reporting period, 191 oil spare parts and equipment contracts were released from hold, with a value of $142,669,807. As at 31 October 2000, shipments of oil spare parts and equipment with a total value of $437,612,829 had arrived in Iraq in total or in part.

21. Members of the Committee have reviewed those contracts for oil parts and equipment that have been placed on hold and will continue to do so as necessary in the future, in accordance with the letters of the Secretary-General to the President of the Security Council (S/1999/1086 and S/2000/950). Members of the Committee met on one occasion at the expert level to discuss that issue, at which time they were briefed by representatives of the Office of the Iraq Programme and representatives of the independent inspection agency (Saybolt Nederland BV).

V. Other activities

22. The Committee held seven formal meetings and frequent informal consultations at the expert level during the reporting period to discuss various issues related to the implementation of the oil-for-food programme.

23. The Committee also heard a number of briefings on the humanitarian situation and programme-related issues in Iraq by the Office of the Iraq Programme, the United Nations Humanitarian Coordinators for Iraq, representatives of the United Nations Centre for Human Settlements (Habitat) and representatives of other United Nations organizations and agencies operating in Iraq. The Committee has addressed a circular letter to all the United Nations agencies in Iraq to invite them to brief the Committee on a regular basis.

24. In October 2000, an Iraqi communication addressed to the Secretariat concerning a change from dollars to euros in pricing its oil exports was brought to the attention of the Committee. After studying the issue and the United Nations Treasurer's report on the implications of paying for Iraqi oil in euros, the Committee, on 31 October 2000, informed the United Nations Under-Secretary-General for the Department of Management that the Committee had come to the conclusion that the United Nations Treasurer could consider herself authorized to open a United Nations Iraq account in euros. The Committee also requested an in-depth report within a period of three months, including the possible costs and benefits for the oil-for-food programme and other financial and administrative implications of the payment for Iraqi oil in euros.

VI. Conclusions

25. The Committee is committed to work closely with the Office of the Iraq Programme and all parties concerned to ensure the effective implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995). As in the past, the Committee wishes to reiterate its appreciation to all parties concerned for their cooperation and contribution in this regard.